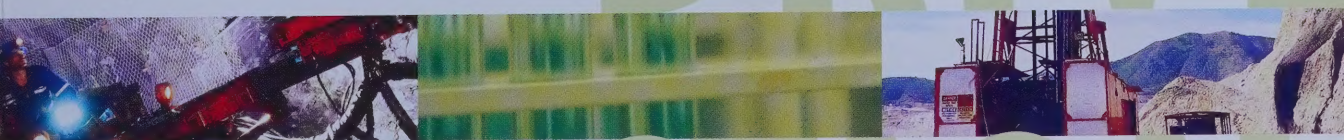
Dynatec

VISION DRIVE DIRECTION

Strength in Diversity



annual report 2001

CORPORATE PROFILE

Dynatec Corporation (Toronto Stock Exchange: DY) is a widely held Canadian public company that provides a broad range of services, principally to customers in mineral exploration, mining and refining. Dynatec's business currently comprises three divisions: Mining Services, Drilling Services, and Metallurgical Technologies. The Company's intention is to continue to expand its expertise and service range, as well as to acquire profitable equity positions in mineral operations. Currently, the Company holds:

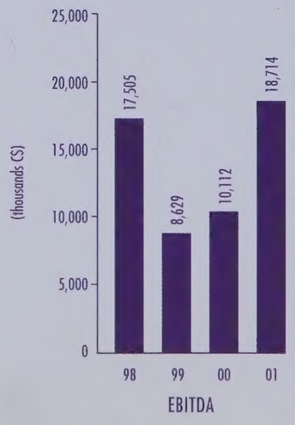
- A 40-percent equity interest in Highwood Resources Ltd., a resource development company engaged in the industrial minerals and specialty metal businesses, and
- A 25-percent interest in the Fort Knox-Dynatec Sudbury Basin Joint Venture (Fort Knox Gold Resources Inc. – 75 percent) formed to explore, develop and mine five mineral properties in the mineral-rich Sudbury Basin.

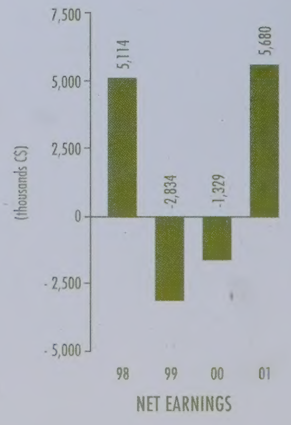
Dynatec's Mining Services Division offers mine design, construction and development, Raise Boring, alimak raising, shaft sinking and mining operations. This division's experience, strong technical skills and innovative approach have earned it the trust of major mining project owners globally as a result of its emphasis on safe work practices, continuous cost reductions, increasing tonnage and recovery efficiencies. With more than 200 pieces of mobile mining equipment and 16 Raise Bore machines, Dynatec has helped customers such as Goldcorp, Barrick Gold, Inco, Newmont and IMC Potash meet their objectives.

Dynatec's Drilling Services Division provides international mining, geothermal and geoscientific communities with drilling services for mineral exploration and development work. This division currently operates more than 60 drill rigs, providing services to customers such as Placer Dome, Kennecott, Los Alamos, Anadarco, and Pennaco. Because of its diamond core drilling, wireline core recovery systems and blowout prevention expertise, this division has successfully moved into coal-bed methane drilling.

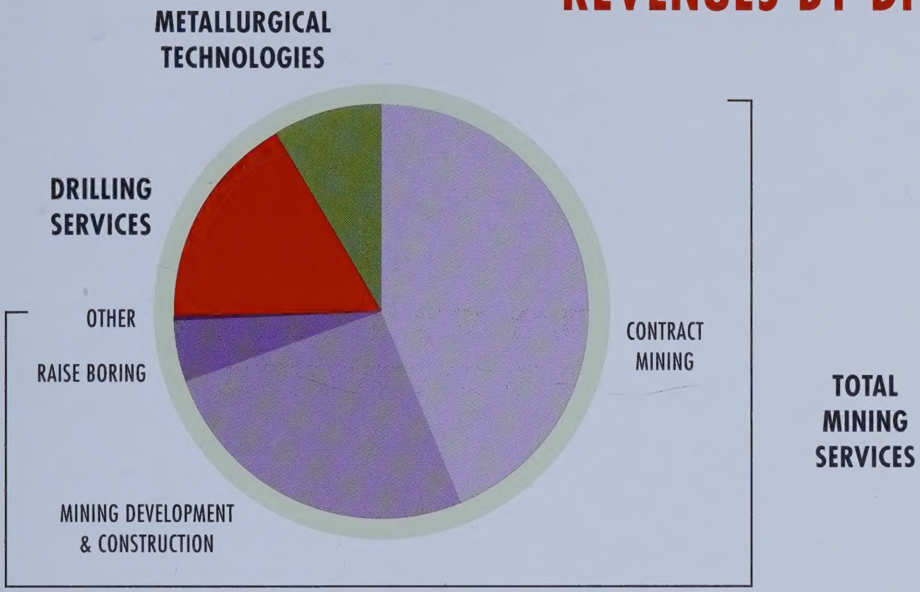
Dynatec's Metallurgical Technologies Division is a leader in developing and commercializing extractive metallurgy. Operating from its Fort Saskatchewan laboratory, engineering and pilot plant facility, the division holds hundreds of patents for its leading-edge technologies and processes. The Division serves a global customer base, including Lihir (Papua New Guinea), Anglo American (South Africa), Impala Platinum (South Africa), Anaconda (Australia), Kazakhstan Copper (Kazakhstan) and Stillwater (USA).







REVENUES BY DIVISION



HIGHLIGHTS

- **Record revenues for the year rose 19 percent, net cash position improved by $25 million.**
- **Earnings from continuing operations before income taxes increased from $1.1 million to $9.3 million.**
- **Earnings from continuing operations rose from $1.6 million to $5.7 million.**
- **Increased profitability – moving from a net loss of $1.3 million in 2000 to net earnings of $5.7 million in 2001.**

- January: the Mining Services Division began a three-year contract with Goldcorp Inc. to conduct the underground mining operation in Red Lake, Ontario, valued at $25 million per year, and employing 200 people.
- February: the Metallurgical Technologies Division won two new contracts: one in Brazil for consulting, engineering and testing; and one in Kazakhstan, for zinc pressure leach technology.
- May: Dynatec announced the Fort Knox-Dynatec Sudbury Basin Joint Venture, with Fort Knox Gold Resources Inc., to purchase five Inco Limited properties located in northern Ontario. The Joint Venture is 25 percent owned by Dynatec and 75 percent by Fort Knox. (Development commenced on an aggressive schedule on March 15, 2002.)
- June: the Drilling Services Division announced its planned entry into a new, profitable niche market, coal-bed methane (CBM) drilling.
- July: Dynatec won a new project for Churchill Falls Power, which was completed ahead of schedule and below budget; the Mining Services Division increased its Raise Boring fleet by 2 to 16; Dynatec successfully renegotiated long-term debt.
- September: Dynatec successfully transferred the Ken Snyder Mine operations to its new owner.
- November: the Drilling Services Division announced a strategic initiative to increase its activities in CBM drilling.

The strength of our revenue statement and balance sheet reflects the solid foundation laid down in prior years.

VISION

Ian W. Delaney, *Chairman (left)*
W.R. Dengler, *President & CEO (right)*

CHAIRMAN'S LETTER

2001 was a good year for your Company. The balance sheet strengthened enormously, financial capacity greatly improved, profitability picked up and Dynatec began to deliver on its promise. Dynatec's core mining operating competencies, drilling expertise and solid metallurgical technologies combine to make it an exceptional integrated contract service provider. Additionally, your Company has developed expertise in a profitable new area, coal-bed methane drilling.

Revenues and profitability improved significantly on last year's unsatisfactory performance. Margins are tight in the mining industry as a whole, but Dynatec has amply demonstrated that it can operate in tough conditions, and has been creative in adapting its skills to higher margin areas. Dynatec's order book is currently very strong, and with renewed operating agreements, new business, new niche markets, and the potential of the development of the Inco properties with Fort Knox, the Company has made an aggressive start to the year.

The year just completed represents the combined efforts of many individuals and groups. I would like to thank all those people who made last year's successes possible and who will make this year even better – our employees, whose focus on safety has added so much to our productivity; our management; the Board of Directors; our customers; and our shareholders.

Ian W. Delaney
Chairman

PRESIDENT'S REPORT

In the history of any company, there are defining years that act as beacons for its future direction. For Dynatec, 2001 was one of those years. The Company improved its overall performance significantly over the previous two years, and both the Mining Services and Metallurgical Technologies Divisions turned in some of their best results ever.

Revenues for the year rose to a record $193.9 million, a 19 percent increase over $162.6 million in 2000. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 85 percent to $18.7 million from $10.1 million, and net earnings improved significantly, growing to $5.7 million or $0.05 per share from a loss of $1.3 million or ($0.012) per share.

This outstanding performance was accomplished against the backdrop of a very distressed mining industry. I want to emphasize that our excellent overall results were not achieved on the basis of new contracts alone. Rather, the strength of our revenue statement and balance sheet reflects the solid foundation laid down in prior years. Dynatec's traditional strengths, such as our long-term mining contracts and our exceptional relationships with major mining clients, provided the necessary foundation for us to expand into new opportunities and continue to diversify our strengths.

For example, at the Goldcorp Red Lake Project, we enjoyed a very successful year in 2001. This was based on the superlative efforts of our employees during the previous two years, through which we earned the confidence of our customer and so were able to sign a new three-year mining contract.

2001

At the Ken Snyder Joint Venture, where we struggled with performance in prior years, we learned how to operate more efficiently despite difficult mining conditions. We solved the problems, and our customer benefited. In addition, we enjoyed excellent performance in our Safety and Loss Prevention Program, always a major emphasis for us. And again, that's not just flash-in-the-pan activity. It is the result of exceptional effort, applied consistently over several years.

The Mining Services Division has taken a major step in furthering our long-term vision, with its Joint Venture Agreement with Fort Knox Gold Resources Inc. The Joint Venture has an Option Agreement to explore and develop five former Inco properties in the Sudbury Basin in Ontario. This agreement has been long in the planning, but will move rapidly from this point.

I want to highlight the success of Dynatec's Safety and Loss Prevention Program. The Drilling Services Division operated the entire year without a single lost-time accident, and its medical aid and accident frequency were half of the target and one-third of last year's total. The division successfully embarked on a dramatically different program with new incentives to improve safety performance. The Mining Services Division lowered its Total Medical Aid Frequency by 21.7 percent, and its project managers jointly committed to a new program element, called Managing Vital Performance, as well as a target of 1.0 for Total Medical Aid Frequency and 0.1 for Lost Time Frequency by 2007. The Metallurgical Technologies Division had zero lost time accidents and zero medical aids to record another outstanding year.

The market for CBM drilling is expanding rapidly. It holds the promise of significant growth for Dynatec.

Our commitment to building a base to return the Drilling Services Division to profitability was amply demonstrated. A few years ago, we made the tough decision to withdraw from South America, where we were competing for a shrinking market and contracts that just were not economically sound.

During this restructuring phase, we made decisions to purchase new, more efficient equipment and to enter into the rapidly expanding coal-bed methane (CBM) drilling market in the middle of last year. I am happy to tell you, that decision alone holds the promise of positively transforming our Drilling Services Division's operations for years to come.

In the Metallurgical Technologies Division, we executed a number of contracts during 2001 that were gained as a result of prior years' hard work. We won several new customers and received license fees that helped our Metallurgical Technologies Division to exceed its forecast. Building for the future, we also continued our development program for the hydrometallurgical treatment of copper sulphide concentrates, a process that will offer environmental benefits over existing approaches.

Looking forward, we are generating new activities on every front. We particularly want to build on our achievements in operating mines, and the joint venture with Fort Knox Gold Resources Inc. will give us that opportunity. This joint venture, first announced in mid-2001 but not closed until early 2002, will entail spending $30 million over 52 months. Dynatec will have a 25 percent share of the joint venture, and will operate the mines once the orebodies are defined. We are confident that one of the mines will go into production as early as the end of this year.

In the Drilling Services Division, we are building more capacity for CBM drilling. We have purchased two additional UDR 1500 drill rigs out of Australia, and brought back one of our remaining rigs in South America for this purpose. These will be modified for CBM drilling, and will increase our CBM fleet by more than 30 percent. We expect this investment to pay off in the short term. I want to emphasize that the market for CBM drilling is expanding rapidly. It holds the promise of significant growth potential for Dynatec, and we are actively exploring the potential for equity participation.

Equity participation will increase in importance for all our divisions. In addition to the Fort Knox-Dynatec Sudbury Basin Joint Venture, the Mining Services Division is aggressively pursuing other opportunities to obtain equity positions in producing mines.

To fully realize the potential for acquisitions, we have a team within the company that can evaluate prospective projects. We also contract outside consultants to assist in assessing projects' investment merit.

We are negotiating with a number of major mining companies to determine which of their non-core, smaller assets they would be willing to divest. As the mining industry consolidates, there are smaller properties that have limited life that would fit perfectly into Dynatec's portfolio. It's a new drive on an idea we've had for many years.

It is not just Dynatec's management team that is focused on acquisition. In fact, this is an activity that has been mandated by the Board of Directors. They have charged Dynatec's executive team to expand the profitable performance realized in 2001. Our joint goal is to grow the company significantly as quickly as possible. This is not news. Management has talked about increasing Dynatec's equity participation in its activities but to date we haven't achieved real results. Today, there is a strong impetus behind our focus on growth through equity investment. We think that 2002 is the year we will see results – internal growth based on established strengths, and growth by acquisition to continue our diversification.

To help us achieve this realistic goal, two outstanding individuals joined the Board in 2001, and a third in early 2002. They bring a wealth of both financial and mining experience. David Banks comes from a banking and merchant banking background. Mr. Banks headed up well-known Newcourt Capital and prior to that was the youngest vice president ever at Chase Manhattan Bank. Pat James has been president of two major mining companies – Rio Algom and Santa Fe Gold. Mr. James brings considerable strength to the Board in terms of his mining expertise and business experience. Bruce Walter joined our Board and management team in 2002 as Executive Vice-Chairman. Mr. Walter has enjoyed a successful career spanning securities law, mining, technology and finance. His broad experience adds depth and strength to our team as we continue to build Dynatec on the solid foundation that we have created.

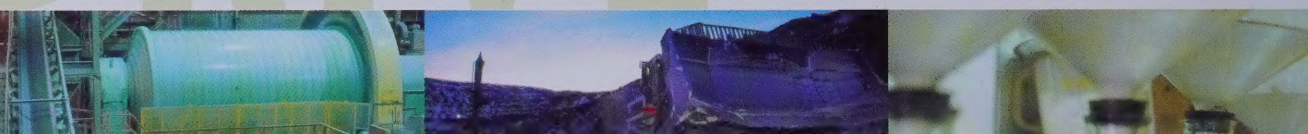
Despite the commitment of Board and management to growth by acquisition and equity participation, I want to emphasize that this will not be done at the expense of our balance sheet performance. The investments we have made in new equipment, our aggressive entry into CBM drilling and our joint venture with Fort Knox are all on track for a very fast payback.

We will continue to focus on delivering solid financial performance to our shareholders. We think that this focus will be supported by rising commodity prices, which must start to improve as global consumption begins to keep pace with the growing world population. As long as the general public is seeking a better standard of living, the world markets will be net consumers of metals and minerals. Therefore, both consumption and commodity pricing will rise.

Overall, I'm very optimistic about 2002 and the future of Dynatec. We are focused on acquisitions at a time when such activity is likely to be very advantageous. The Divisions have weathered a very difficult period and have emerged as clear leaders in their respective markets, with the strength and skill to move aggressively into new initiatives. Profitable in operations, global in reach, unparalleled in performance and safety, our performance has demonstrated our strength in diversity. Dynatec is truly positioned for outstanding growth.

W.R. Dengler
President & CEO

DRIVE

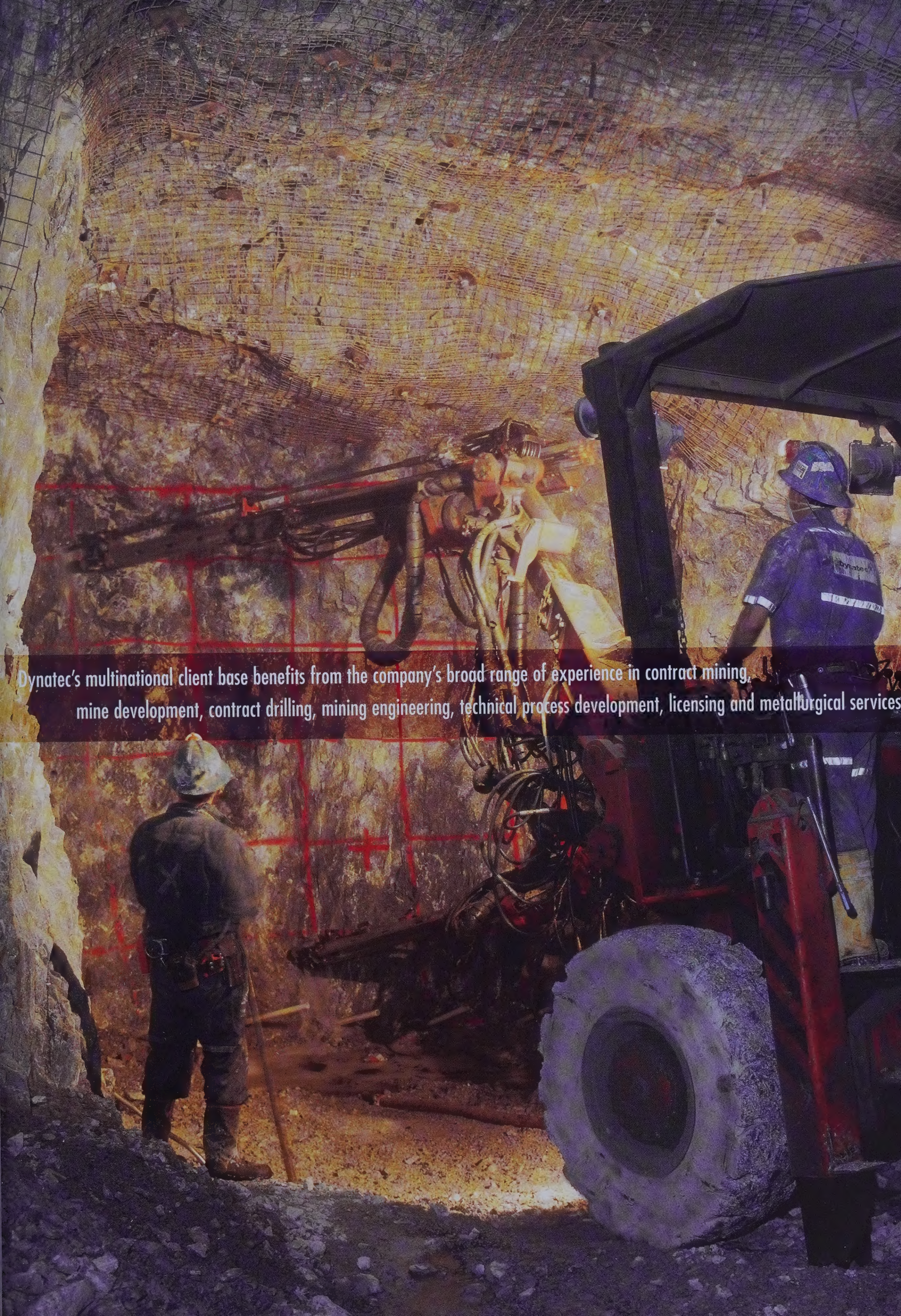


For Dynatec, 2001 was the year when it all began to come together. In previous years, the Company had defined both a clear vision and the actions that would drive it towards its goal. Dynatec had assembled a team of aggressive managers, a blue-chip Board of Directors, and a talented base of over 800 employees, all of whom were pointed in the direction of profitable, industry-beating growth. In 2001, the work began to pay off.

It wasn't instant. It couldn't be, given the vagaries of commodity pricing, the cyclical nature of the industry, and the shape of contracting itself, where the lowest price often is the sole determinant of the outcome of contract negotiations.

As a result of its core strengths, Dynatec enjoys several strategic advantages over traditional mining contractors. Over the years, the Company has built the trust of major customers worldwide. Dynatec has earned a solid place with companies such as Barrick Gold, Inco, Placer Dome, IMC Potash, RTZ-Kennecott and Goldcorp. In the process, Dynatec has delivered services to mining sites around the globe.

Dynatec's multinational customer base benefits from the Company's broad range of experience in contract mining, mine development, contract drilling, mining engineering, technical process development, licensing, and metallurgical services.



Dynatec's multinational client base benefits from the company's broad range of experience in contract mining, mine development, contract drilling, mining engineering, technical process development, licensing and metallurgical services.

25%

In 2001, the Mining Services Division increased its revenues by over 25 percent, and experienced its most profitable year ever.

This diversified business focus means that Dynatec is not dependent on any single commodity, and can take profitable advantage of cross-marketing opportunities within its three divisions, Mining Services, Drilling Services and Metallurgical Technologies, all of which have experienced significant changes through 2001.

The Mining Services Division has evolved as a result of continuous cost reductions, focus on efficiencies and safe work practices that are among the best in the mining industry. It not only works with mine operators to build value, but partners with mine owners in a strategic shift that has had a powerful impact on the way the Company does business. As Bill Shaver, Vice-President Mining Services, said, "In 2001, the Mining Services Division increased its revenues by over 25 percent, and experienced its most profitable year ever. It was also our best year from a safety point of view – safety is good business!"

The Drilling Services Division purchased more productive diamond core drill rigs as part of a plan to improve productivity, thereby improving its technically superior fleet of some 60 drill rigs, several of which are now engaged in CBM drilling. "This new initiative really plays to Dynatec's strengths," said Noble Larsen, Vice-President Drilling Services, "Nobody else has the combination of a background in geothermal work and blowout prevention, plus the right wireline equipment that lets us bring core up for testing very quickly." Though revenues were off in Drilling Services as a result of decreased demand in the mineral sector, the move into CBM drilling partially offset this reduction.

In its Metallurgical Technologies Division, Dynatec is a recognized leader in developing and commercializing pressure hydrometallurgy, with more than 30 commercial plants in operation worldwide using Dynatec technology supported by its many patents for advanced

technologies and processes. Dynatec's concentration on R&D has enabled it to stay actively in the forefront of extractive technology. "2001 was a relatively good year," said Gerry Bolton, Vice-President Metallurgical Technologies. "Demand in the first half of the year was very strong, but the decline in metal prices in the industry as a whole had an impact on our sales." Improved commodity pricing will benefit this Division in the coming year, but even in a trying environment, the Division increased both revenues and margins.

Vision, Drive, Direction. Dynatec has a clear vision of what it wants to be. It has the drive and energy to move forward, and the direction to keep it on track for increased revenues and higher profitability.

MINING SERVICES DIVISION

Dynatec's Mining Services Division provides contract mining, mine development, underground construction and Raise Boring services. With an estimated 20 percent of the contract mining business in Canada, and 10 percent in the United States, the Division is a comprehensive service provider that has partnered with customers worldwide.

More than just a mining contractor, the Mining Services Division continued to refine its vision, laying the groundwork for a new direction that will utilize the Company's mining expertise to the fullest. This new direction has altered the Division's business model as it enters an area that is uniquely suited for its particular skills and strengths.

With an estimated 20 percent of the contract mining business in Canada, and 10 percent in the United States, the Mining Services Division is a comprehensive service provider that has partnered with customers worldwide.

Some years ago, Dynatec began to explore the possibility of not just operating but owning part or all of the mines it works at. Having contracted all over the world on a wide range of projects, the Company had gained the operating expertise necessary to oversee complete mining properties. In addition, Dynatec's management wanted to enjoy direct profits from the extracted material as well as earning service fees. Identifying and purchasing appropriate properties has been an arduous process, but the effort is now showing positive results that will improve the Company's future performance.

Dynatec noted that large mining companies often do not develop smaller properties as these may not meet their development criteria. Management believes Dynatec can turn a profit, exploring and mining small ore bodies that would otherwise be left undeveloped. These properties can generate substantial cash flow, may have upside potential for additional reserves and require relatively low capital investment. Having worked on many projects as contractors and consultants, Dynatec has a unique approach that reduces costs and increases production in mines that some companies might consider too small to pursue. The Fort Knox-Dynatec Sudbury Basin Joint Venture is, of course, an example of Dynatec putting plans into action.

Looking into 2002 and beyond, Dynatec's Mining Services Division will drive to expand its operations, contracting, operating and owning interests in its projects. Most importantly, the Company expects to continue to move in the direction of its joint venture business model.

DRILLING SERVICES DIVISION

The Drilling Services Division historically specializes in diamond core, rotary, and geotechnical and geothermal contract drilling, with mineral exploration and core drilling making up most of the division's revenues. It supplies about 20 percent of all mineral-related

5%

In 1990, approximately 3,000 CBM wells were drilled in the United States. By the year 2000, numbers had risen to more than 23,000 wells. Dynatec now has about 5 percent of the United States market for CBM drilling.

drilling services contracted in the continental United States, and as much as 70 percent in the State of Alaska through a Joint Venture with NANA Development Corporation, an Alaskan Native Corporation.

The excitement in the Drilling Services Division, and its important new direction, lies in its entry into coal-bed methane (CBM) drilling, of which it now holds about 5 percent of the United States market. This is a good business opportunity for Dynatec, which has advantages in this sector for several reasons.

A major advantage arises from Dynatec's experience in well control, the ability to defend against the explosive release of highly compressed gases. Dynatec has the blowout prevention equipment and experience to ensure that CBM wells are drilled safely. Dynatec's long experience in geothermal drilling, where drills may encounter geothermal fluids at high temperatures and pressures, enables the Company to handle volatile coal-bed gases safely.

Another advantage lies in Dynatec's equipment. The drills commonly used for CBM are less mobile and require a large footprint. Dynatec's self-propelled mobile drills have a smaller footprint and mud system, require smaller crews, are lower cost and less expensive to operate, and have better accountability, higher efficiency and greater safety.

A third, and perhaps the most important advantage, is the speed with which Dynatec can recover high-quality core samples. Evaluating a

coal deposit for its methane content requires measuring total gas content per ton of coal, as well as the rate at which the gas is released from the sample. Only core samples can provide this data. Dynatec can bring core samples to the surface in 10 to 15 minutes versus several hours for traditional coring systems, routinely recovering over 95 percent of the available core from a drill hole, compared to much poorer core recovery for conventional systems. This high speed of extraction of high-quality cores allows for more accurate gas desorption and gas content measurement, and is rapidly making Dynatec the driller of choice. The Company went from one rig in June to seven rigs in October and will have more rigs available for CBM drilling by the second quarter of 2002. In response to this growth in demand, Dynatec has hired a senior manager with a background in CBM drilling to oversee the field operations.

Over time, CBM drilling has strong prospects for sustained growth internationally. Although the United States is the major market at this point, large coal fields exist around the world, from Canada to Australia to Indonesia; many of these fields are not economical to develop for the coal itself, but the accompanying methane is not only extractable but cleaner than coal as an energy source.

The single-source service for CBM that Dynatec is creating, in association with Advanced Resources International Inc. (ARI), will be critical in markets that are less developed than the United States, where these services may not be otherwise available.

CBM drilling also operates on a different market cycle from the minerals industry, and so should offset some of Dynatec's vulnerability to the ups and downs of mineral commodity pricing. The Drilling Division sees CBM drilling as a strong and significant addition to its service suite. With the right equipment, the well-control experience, and successful partnership with companies like ARI shaping its direction, Dynatec has moved into a substantial growth sector.

METALLURGICAL TECHNOLOGIES DIVISION

A recognized leader in pressure hydrometallurgy, with strong metallurgical technology research and a significant percentage of process design globally, the Metallurgical Technologies Division is a powerful player in its market areas and a major contributor to Dynatec's overall expertise.

The first part of 2001 saw the Metallurgical Technologies Division complete several successful projects:

- The Gamsberg zinc feasibility study project for Anglo-American is complete and now awaits approval to move forward.
- Two major nickel-cobalt feasibility studies for Philnico Industrial Corporation in the Philippines were completed during the year.

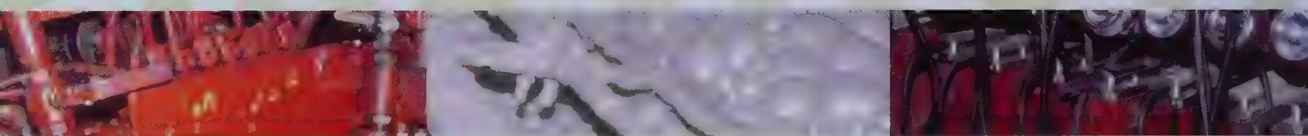
Ongoing major projects include:

- A hydrometallurgical licensing and engineering project for Kazakhstan Copper Corp. for a 100,000 tonne per year zinc refinery.
- A hydrometallurgical design and procurement project in South America.
- An engineering, laboratory and pilot plant services project in Brazil with Companhia Niquel Tocantins.

Through 2002, the Metallurgical Technologies Division sees slowed demand into the fourth quarter, as a result of continued low commodity prices. However, the Division anticipates being able to outperform the industry as a whole because of its strong ongoing customer relationships.

The Metallurgical Technologies Division is a recognized leader in pressure hydrometallurgy, with strong research capabilities and a significant percentage of process design globally.

DIRECTION



COAL-BED METHANE (CBM) DRILLING

The potential for further growth in CBM is dramatic. In 1990, approximately 3,000 CBM wells were drilled in the United States, accounting for only one percent of the natural gas produced. By the year 2000, numbers had risen to more than 23,000 wells, and CBM yielded about eight percent of all the natural gas produced in the United States, a huge increase.

It is Dynatec's intention to become more involved in the CBM drilling sector. The first step has been to develop stronger working relationships with top CBM geological firms. These geological firms contribute the logging expertise, the core handling, the interpretation of the core, and the calculation of the reserve. Dynatec can improve the quality of all these services by delivering high-quality core samples quickly, enabling the geological consultant to more accurately assess the porosity, permeability and gas content of the sample.

With the vision of providing a total CBM drilling service to customers, Dynatec has established a joint venture with a Washington-based specialist in non-conventional gas, Advanced Resources International Inc. (ARI). ARI currently does about 75 percent of the consulting on CBM in the United States, giving production companies advice all the way through the process, from land identification through to a full economic analysis of the reserve. With Dynatec's speed and expertise in high-quality core-sample extraction and well drilling, the two companies can provide a turn-key service to CBM lease holders.

FORT KNOX-DYNATEC SUDBURY BASIN JOINT VENTURE

The Fort Knox-Dynatec Sudbury Basin Joint Venture represents a paradigm shift for Dynatec. As a result of its expertise in mining operations, Dynatec's Mining Services Division is able to begin moving away from its traditional contract mining model toward mine ownership and operation, either alone or in joint ventures.

In the case of the Fort Knox-Dynatec Joint Venture, Fort Knox Gold Resources Inc. has an option agreement with Inco Limited to acquire a 100 percent interest in the mineral rights covering five Sudbury Basin properties, McCreedy West, Levack, Victoria, Kirkwood and Norman, which, with the exception of Norman, are documented former producing mines. This agreement also conditionally grants Fort Knox the right to access and use the surface rights and onsite facilities in order to explore, develop and mine on the properties. All of these rights have been assigned to the Fort Knox-Dynatec Joint Venture.

Under the terms of the Inco agreement, in order to earn the 100 percent interest in the properties, the Fort Knox-Dynatec Joint Venture must spend $30 million on exploration and development over a 52-month period beginning January 2002. For its 25 percent interest, Dynatec will commit $7 million in the first 16 months (as will Fort Knox), with the remaining $16 million to be committed proportionally with ownership over the remaining 36 months, Dynatec contributing $4 million and Fort Knox $12 million.

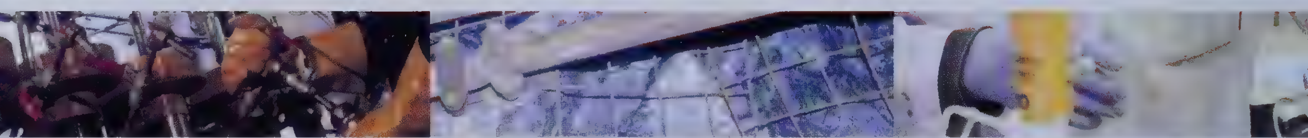
Fort Knox will conduct all exploration activities on the properties. Dynatec will conduct all mining operations and related activities.

Preliminary indications are that the properties offer rich deposits of copper, nickel, platinum, palladium, gold, cobalt and other minerals. Dynatec and Fort Knox believe that there are 5 near-term production targets, and 12 advanced exploration targets. The work program will be very aggressive, with at least 400,000 feet of surface drilling planned in the first 16 months. Underground drilling is planned for later in 2002, starting with the McCreedy West and Levack properties.

Participation and earned interest in the Fort Knox-Dynatec Sudbury Basin Joint Venture point the way for future corporate growth.

W.R. Dengler, President & CEO Dynatec Corporation (left)
Terry MacGibbon, President & CEO Fort Knox Gold Resources Inc. (right)

The Mining Services Division lowered its Total Medical Aid Frequency by 21.7 percent, the Drilling Services Division by more than 50 percent, and the Metallurgical Technologies Division required zero Medical Aids.



HEALTH, SAFETY AND THE ENVIRONMENT

Vision, Drive, Direction. Dynatec's actions on safety parallel the theme of this annual report. Management had the vision to see that health and safety are key to improved output and better employee and customer relationships. They drove the successful implementation of a program that continues to improve.

Dynatec's policy on health, safety and loss control goes well beyond a simple management commitment to safety in the workplace. With a mobile workforce contracted to diverse and remote operations, the employees themselves must be committed to their own safety and to the safe and positive behaviour of those around them. Through training and ongoing assessment programs, Dynatec has successfully created a culture of safety. Time lost to accidents and medical interventions has dropped dramatically.

Obviously, customers benefit from the safe operation of their projects. Dynatec's commitment means lower production costs and less time lost due to accidents. In 2001, Dynatec took that one step further, by beginning to develop a conflict management culture, acting to establish a new direction in the working environment.

Rather than letting a conflict – worker to worker, worker to supervisor, customer to Dynatec, regulator to Dynatec – get out of control, Dynatec will manage both the problem and the process. The Company is embarking on a conflict management culture, similar to the safety culture already implemented, that will be disseminated throughout the organization.

At a senior management level, Dynatec has formed a committee consisting of one appointee from each division who will work together with Dynatec's President to formulate a comprehensive corporate program in conflict management.

This program is being rolled out to the entire management team in 2002. It has already been addressed at management levels in each Division.

Dynatec is always looking at better ways to operate. To maintain the status quo is simply too comfortable and too easy. Dynatec is actively driving a philosophy of development, of direction, of continuous improvement. It never ends. It never will end.

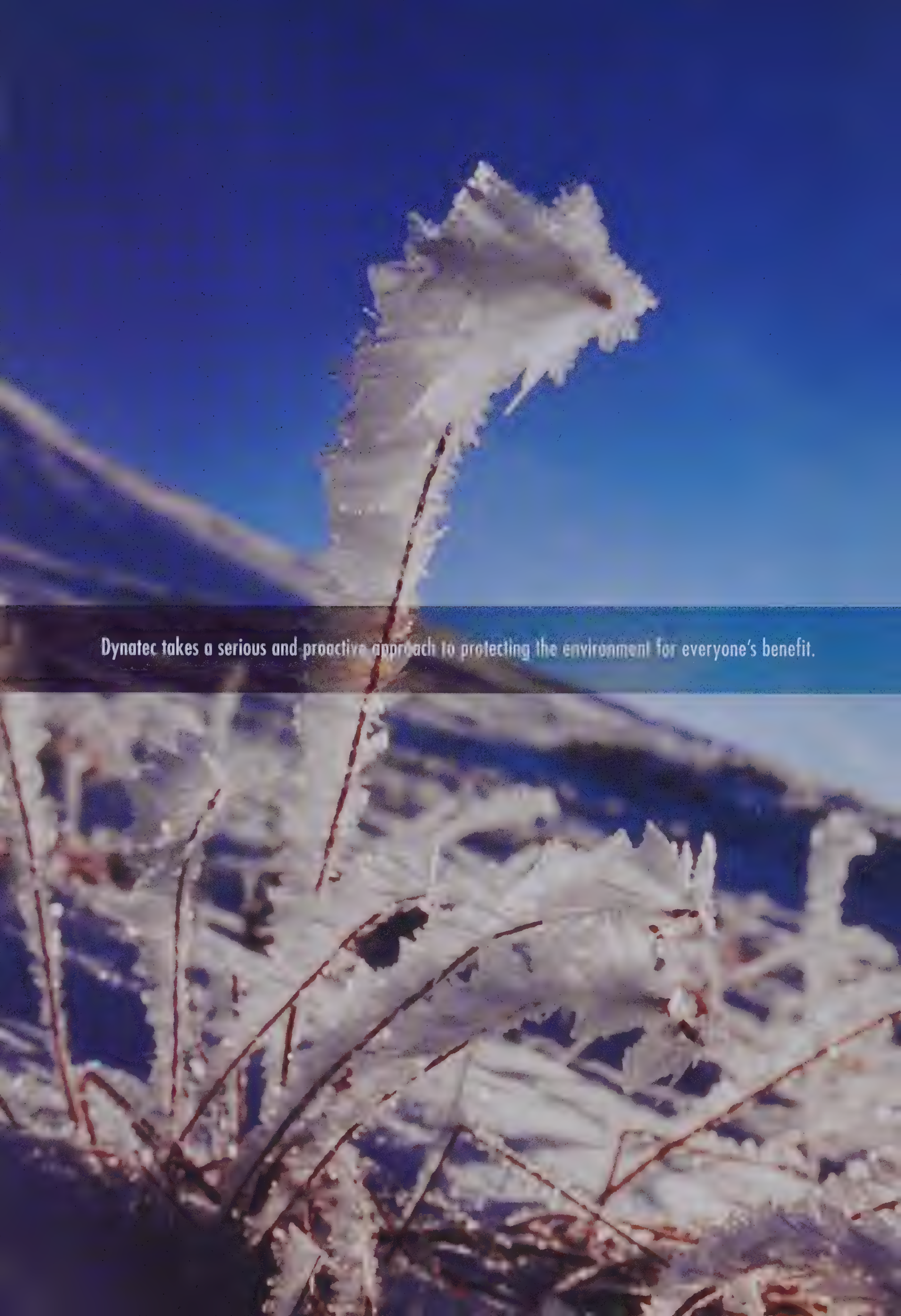
The Company tested a project last year where the miners earned 50 percent of their bonus based on safety and 50 percent based on production, as opposed to the usual 100 percent production bonus. It was so successful that the Company is moving all of the employees in the Mining Division to this program. This is a total departure from anything Dynatec has done in the past, and shows real promise. On the project that tested the safety production bonus combination, Dynatec had its best accident performance ever and saw production improve as well.

The safest jobs Dynatec has operated over the last ten years have also been the most productive. That fact has driven Dynatec's commitment to health, safety and loss control. Every time Dynatec has an accident-free job, it is a financial success as well.

Dynatec takes a serious and proactive approach to protecting the environment to preserve it for everyone's enjoyment, both now and in the future. The Company actively practices the "Three Rs", and Reduces, Reuses and Recycles whenever possible. Paper, wood pallets, steel and plastic drums, and fax and printer cartridges are all reused or recycled, for example. Dynatec also discourages unnecessary packaging in shipments from suppliers and works with customers to keep the natural environment thriving.

Dynatec places its operations under strict environmental compliance initiatives aimed at meeting or exceeding governmental guidelines. The Company volunteers in several environmental programs, including the Mining Association of Canada's Environmental Progress Report, which is compiled for government to describe its members' actions on the environment. Dynatec also reports annually to Environment Canada with respect to certain substances from the Domestic Substances List. Dynatec carefully monitors usage of these substances, that are known to be toxic, and reports that only minimum quantities are used under controlled conditions with zero discharge into the environment.

The well-being of the environment will continue to be a priority for Dynatec.



Dynatec takes a serious and proactive approach to protecting the environment for everyone's benefit.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company's revenue increased by 19.2%, up from $162.6 million in 2000 to a record level of $193.9 million for 2001.

Earnings from continuing operations increased significantly, to $5.7 million in 2001 from $1.6 million in 2000.

The Company recorded net earnings for the year of $5.7 million compared to a net loss of $1.3 million for 2000, an improvement of $7.0 million.

As a result of this improved profitability as well as reductions in accounts receivable, inventory and prepaid expenses, the Company improved its net cash position by $25 million during the year. A significant portion of this improvement was due to the completion of the Ken Synder mining and milling contract on September 30, 2001, at which time the client purchased the on-site inventories and paid for the underground development costs that had been deferred as part of the prepaid expenses.

The Mining Division increased its revenues and margins significantly from improvements in most of its major contracts undertaken during the year.

Drilling revenue in the United States and Saudi Arabia decreased in 2001 as compared to 2000. The reductions were primarily in non-mineral geo-technical drilling which was only partially offset by revenues earned in the coal-bed methane drilling sector. Gross margins decreased in the Drilling Division as the reductions in revenue were in projects where margins are generally superior to those for exploration drilling projects.

The Metallurgical Technologies Division increased its revenues and margins primarily due to increased license fees earned during the year.

Over the years, Dynatec's Safety and Loss Prevention Program has been refined and improved. The emphasis on safety and loss prevention is yielding excellent results, as the Company was able to achieve a dramatic reduction in accidents in 2001.

The Drilling Division operated for the entire year without a single lost time accident and achieved a total medical frequency of 7.2, more than 30 percent lower than the target and less than 50 percent of last year's total. In 2001, the Drilling Division embarked on a dramatically revised Safety Program with new incentives to improve safety performance, and they achieved it.

The Mining Division lowered its total medical aid frequency by over 20 percent to a total medical aid frequency of 7.9 for the year and a lost time accident frequency of 1.0. The Mining Division has embarked upon a new Safety Program element called Managing Vital Performance. The Mining Division management have collectively set a target total medical aid frequency of 1.0 to be achieved by the year 2007.

The Metallurgical Technologies Division had a 0 lost time accident frequency and 0 medical aid frequency to record another outstanding year.

Revenues and Gross Margin

Total contract revenues increased 19.2% in 2001 to $193.9 million from $162.6 million in 2000 with the Mining and Metallurgical Technologies Divisions posting revenue growth. Revenues increased in the Mining Division by 26.3%, and in the Metallurgical Technologies Division by 16.7%. The Drilling Division's revenues decreased by 3.5% .

The Mining Division increased its revenues in both the United States and Canada on existing contracts. A full year under a mine operating contract at the Goldcorp Inc. Red Lake Mine in Canada and increased revenues from the mine development and construction work at the Barrick Meikle Mine Complex in the United States were the major contributors to the increase in revenues of the Mining Division.

Decreased revenues in the Drilling Division were primarily due to decreased demand for the Company's services in the continental United States as well as decreased revenues from a project in Saudi Arabia. The decreases in the United States were primarily the result of decreases in the non-mineral drilling market, which includes geo-scientific and environmental drilling. Partially offsetting these decreases were new revenues from drilling for coal-bed methane deposits.

The Metallurgical Technologies Division had improved revenues from both licence fee income and from construction projects in 2001 as compared to 2000.

The gross margin of the Mining Division increased in 2001 due to an increase in the margins on the Company's contract mining operations. Improvements in gross margins were also earned in the Raise Boring contracts and in several smaller construction contracts.

The gross margin of the Drilling Division's continuing operations decreased in 2001 due to decreased revenues in non-mineral geo-scientific and environmental drilling, where margins are generally superior to those for exploration drilling contracts.

The gross margin of the Metallurgical Technologies Division increased in 2001 primarily due to an increase in license fee revenue when compared to the prior year.

General and Administrative Expenses

General and administrative expenses increased by $0.8 million from $11.9 million in 2000 to $12.7 million in 2001. General and administrative expenses increased due to additional costs related to reviewing and carrying out due diligence with respect to possible investment targets throughout the year, as well operating volume.

Other Revenue

Other revenue decreased by $944,000 to $24,000 in 2001 from $968,000 in 2000. Interest revenue decreased during the year due to decreases in term deposit interest rates. A significant reduction in 2001 in other revenue was caused by the $914,000 loss from Dynatec's 35% share of the net loss of Highwood Resources Ltd. for the year ended December 31, 2001 compared to a loss of $123,000 in 2000. These decreases were partially offset by an increase in realized foreign exchange income.

Income Taxes

In 2001 income tax expense is representative of normalized rates applicable in the taxing jurisdictions in which the Company operates.

Liquidity and Capital Resources

During 2001, the Company improved its liquidity significantly, reducing its operating loans from $20.4 million to $0.3 million and increasing its cash on hand by $4.9 million for a total improvement of $25 million.

This improvement was the result of cash flow from operations, reductions in accounts receivable, inventories and prepaids.

The Company currently maintains cash on hand while at the same time it utilizes working capital loans to fund ongoing operations. Of the cash on hand, $18.1 million represents the balance of the net funding received as part of the 1997 reorganization of the Company. These funds are intended to be used for acquisition and investment purposes and as a result, working capital loans are used to fund ongoing operations.

The Company's major ongoing cash requirements relate to the funding of accounts receivable, inventories, for debt service obligations, capital expenditures and investments. The Company maintains a $25 million current operating facility with a major Canadian bank for this purpose.

The Company refinanced a significant portion of its long-term debt during 2001, replacing its Canadian lender with new debt from the Company's United States bank.

Investment in Highwood Resources Ltd.

In August 1999, the Company purchased for cash consideration of $6.1 million, 35% of the outstanding shares of Highwood Resources Ltd. Highwood is an industrial mineral producer with significant operations in barite, talc and silica sand. Highwood also has several development properties; the most significant of which is the Thor Lake Beryllium property. Dynatec's share of Highwood's loss for the year ended December 31, 2001 was $914,000 compared to a loss of $123,000 for the prior year. The investment in Highwood is accounted for using the equity method of accounting.

Highwood Resources Ltd. issued a rights offering, dated December 10, 2001, for existing shareholders to subscribe for up to 21,855,458 rights exercisable into 18,002,847 common shares at $0.125 per share. The expiry date of the offering was January 11, 2002. The Company purchased a total of 7,438,058 common shares under the rights offering and 400,000 common shares in the open market for a total consideration of $1,039,000 and now owns approximately 40.1% of the total number of common shares of Highwood Resources Ltd.

Working Capital

The working capital requirements of the Company are primarily in respect of inventory and accounts receivable related to its contracting operations. During 2001, working capital increased from $32.6 million at December 31, 2000 to $ 36.2 million at December 31, 2001. Decreases in accounts receivable, inventories and prepaid expenses resulted in the decrease of the current bank debt and an increase in cash. The decreases in inventories, prepaid expenses and a portion of the decrease in accounts receivable were due to the completion of the Ken Synder mining and milling contract on September 30 2001, at which time the client purchased the on-site inventories and paid for the underground development costs that had been deferred as part of prepaid expenses.

Capital Expenditures

Additions to capital assets, net of proceeds from asset sales, amounted to $7.0 million for the year ended December 31, 2001 compared to $6.8 million for 2000. The Drilling Division purchased three new high efficiency core drills for the Nevada deep coring market, along with the required support equipment. The Mining Division added various underground mining equipment for its United States contract work as well as four raise drills and associated pipe for the Company's raisebore contract work in both the United States and Canada.

Risks and Uncertainties

The most significant operating risk affecting the Company is the potential downturn in demand for the Company's services due to decreased activities in the mining and refining industries, which are in turn dependent on metal prices. In the past few years, demand for the Company's mining services has been steady in North America while the demand for the Company's drilling services has decreased in North America particularly in the non-mineral drilling market, which includes geo-scientific as well as environmental drilling services. The market for drilling services in coal-bed methane is a new market for the Company and is expected to increase in 2002. Demand for the services of the Company's Metallurgical Technologies Division remained steady in 2001. However, if metal prices were to drop again, causing lower activity levels in the mining and refining industries, demand for the Company's services would decrease and the Company's financial results could be significantly affected. Also, from time to time, a significant portion of the Company's overall revenue and net income may be dependent on a few key contracts. There can be no assurance that, upon the expiration or other termination of these key contracts, the Company will obtain sufficient replacement contracts to maintain revenue and income levels.

The Company intends to manage and spread such risks through its strategy for the development and growth of its business, which will further diversify its operations. A key component of this strategy is to invest in selected mining and refining projects in the advanced exploration or development stage. Its major investment to date has been its investment in Highwood Resources Ltd. The Company also intends to continue to exploit improved cross-marketing opportunities among its three divisions.

Many of the mining and refining projects which utilize the Company's technologies and services, or in which the Company may invest, are and will continue to be located in foreign countries. Foreign operations and investments may be adversely affected by local political and economic developments, as well as by laws and policies of Canada affecting foreign trade, investment and taxation. The politics and economy of many of the countries in which the Company currently conducts, or may in future conduct, operations may be less stable than in Canada. The Company may also be materially adversely affected by changes in foreign currency exchange rates since the Company's operating results are reported in Canadian dollars and yet over half of the Company's revenue is in United States dollars or other foreign currencies.

In October 2001, the Company received a statement of claim setting out a claim against Sherritt International Corporation and the Company, brought in the Supreme Court of Australia, by Fluor Australia Pty. Ltd. ("Fluor"). The claim relates to alleged deficiencies in the facilities of Anaconda Nickel's Murrin Murrin mine development in Australia. The alleged deficiencies are subject of an ongoing arbitration commenced by Anaconda Nickel against Fluor, which was retained by Anaconda Nickel to provide engineering, procurement and construction services. In the arbitration proceedings, Anaconda Nickel alleges that Fluor breached the services contract between them. The Company believed Fluor's claim is without merit and intends to defend it vigorously.

Outlook

The Mining Division has a significant backlog of contract mining work as it enters 2002. Existing mine development and contract mining contracts at Goldcorp Inc, Barrick Gold Corp. and IMC Canada provided a strong basis as the Mining Division enters 2002. In September 2001, the Company ceased contract mining operations at the Ken Synder mine in Nevada. The revenue related to that contract was approximately $53 million in 2001. The Company continues to bid on new projects and with the signing of the Fort Knox Joint Venture Agreement, the Company expects that this revenue will be replaced over the next few years. In addition the Mining Division has a significant backlog of raise drilling contract work on hand.

The Drilling Division saw reductions in its exploration, geoscientific and environmental drilling contracts during 2001 but has secured several large exploration drilling contracts in early 2002 which, along with coal-bed methane gas drilling contracts, should lead to improved results for 2002.

The Metallurgical Technologies Division is starting the year with existing contracts as well as the opportunity to earn new license fees as a result of initiatives undertaken in prior years.

In February 2002 the Company and Fort Knox Gold Resources Inc. signed the Fort Knox – Dynatec Sudbury Basin Joint Venture Agreement ("Sudbury Basin Joint Venture") to explore, develop and mine five mineral properties, (McCreedy West, Levack, Victoria, Kirkwood and Norman, collectively the "Properties") located in the Sudbury district of northeastern Ontario. The Sudbury Basin Joint Venture (Fort Knox-75%, the Company-25%) is effective January 10, 2002.

Fort Knox recently entered into an option agreement with Inco Limited ("Inco Agreement") to acquire a 100% interest in the mineral rights covering five properties. The Inco Agreement also grants Fort Knox, subject to certain conditions and approvals, the right to access and use of the surface rights and onsite facilities as will be necessary to permit exploration, development and mining operations on the Properties.

Fort Knox has assigned all of its rights, obligations and interest in the Inco Agreement to the Sudbury Basin Joint Venture. Fort Knox will conduct all surface and underground exploration activities on the Properties. The Company will conduct all surface and underground mining operations and related activities on the Properties. Under the terms of the Inco Agreement, Inco has the right to process all ores produced from the Properties.

In order to exercise the option granted under the Inco Agreement and earn a 100% interest in the Properties, the Sudbury Basin Joint Venture is required to incur exploration and development expenditures totaling $30 million on the Properties over a 52-month period commencing January 10, 2002. Fort Knox and the Company have jointly committed to spend a minimum of $14 million ($7 million each) on the Properties over the first 16-month period. The remaining $16 million required to be expended over a further 36-month period, will be funded pro rata according to each Party's joint venture interest; with the Company contributing 25% or $4 million and Fort Knox contributing 75% or $12 million.

The Properties are all former copper, nickel, platinum, palladium and gold producers and contain numerous remnants and extensions of previously mined deposits. In addition, the Company and Fort Knox believe that the Properties host five near term production targets and 12 advanced exploration targets. Please see the Fort Knox press releases dated May 15, July 3, December 3, 2001 and January 11, 2002 for details of the Inco Agreement and the Properties.

The initial work program, budgeted at $14 million, will commence immediately and be one of the most aggressive exploration programs conducted in Canada in a number of years. A minimum of 400,000 feet of surface drilling will be completed on the Properties. Underground drilling on the McCreedy West and Levack Properties is planned for later in the year following rehabilitation of some of the existing underground workings. The initial work program will be directed toward an early evaluation of the near term production targets, confirmation and delineation of the advanced exploration targets and testing the exploration potential of the Properties.

The participation and earned interest in this Joint Venture is significant to Dynatec's corporate growth strategy.

Forward-Looking Statements

The foregoing contains a review of developments that impacted on Dynatec's performance during 2001. Forward-looking statements and estimates are also made. Such comments will be affected by, and involve, known and unknown risks and uncertainties, which may cause the actual results of the Company to be materially different from those expressed or implied.

MANAGEMENT REPORT

Management is responsible for the preparation of the accompanying consolidated financial statements of the Company in accordance with generally accepted accounting principles, and for its discussion and analysis of results and financial condition, which information is consistent with the financial statements. Systems of internal control are maintained by the Company to provide reasonable assurance of the completeness and accuracy of the financial information. These systems include the delegation of authority and segregation of responsibilities among qualified personnel in accordance with operating and financial policies and procedures. The Board of Directors appoints an audit committee which meets with representatives of the Company's financial personnel and the Company's independent auditors. The committee reviews the Company's accounting policies and the scope and the results of the independent auditors' examination of the Company's financial statements. The independent auditors, who are appointed by the shareholders, examine and report on the financial statements of the Company in accordance with generally accepted auditing standards. The auditors' report to the shareholders of the Company is set out below. The accompanying consolidated financial statements have been reviewed and approved by the Board of Directors and the audit committee.

W.R. Dengler
President and Chief Executive Officer

Arnold Klassen
Vice President Finance and Chief Financial Officer

February 25, 2002

AUDITORS' REPORT

To the Shareholders of Dynatec Corporation

We have audited the consolidated balance sheets of Dynatec Corporation as at December 31, 2001 and 2000 and the consolidated statements of earnings, retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Deloitte & Touche LLP

Toronto, Canada
February 25, 2002

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000
In thousands of dollars

	2001	2000
ASSETS		
Current assets:		
Cash	$ 23,242	$ 18,356
Accounts receivable	17,442	29,612
Income taxes recoverable	–	896
Marketable securities	165	497
Inventories	17,779	20,179
Prepaid expenses and other assets	1,068	2,546
Current assets of discontinued operations *(note 2)*	641	2,180
	60,337	74,266
Capital assets *(note 3)*	43,536	41,602
Investments and other assets *(note 9)*	6,154	7,012
	$ 110,027	$ 122,880
LIABILITIES		
Current liabilities:		
Bank indebtedness *(note 4)*	$ 291	$ 20,439
Accounts payable and accrued liabilities	17,054	16,225
Income taxes payable	1,727	–
Deferred revenue	426	598
Current portion of long-term debt *(note 5)*	4,685	3,707
Current liabilities of discontinued operations *(note 2)*	–	693
	24,183	41,662
Long-term debt *(note 5)*	9,817	11,957
Future income taxes	5,731	6,000
	39,731	59,619
Shareholders' equity:		
Capital stock *(note 6)*	59,489	59,489
Cumulative translation adjustments	2,329	974
Retained earnings	8,478	2,798
	70,296	63,261
	$ 110,027	$ 122,880

On behalf of the Board:

W. Robert Dengler
Director

Ronald P. Fournier
Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31, 2001 and 2000
In thousands of dollars except for per share amounts

	2001	2000
Contract revenue	**$ 193,858**	$ 162,641
Contract expenses	**162,509**	141,606
	31,349	21,035
Other revenue	**24**	968
	31,373	22,003
Expenses:		
General and administrative	**12,659**	11,891
Depreciation and amortization	**6,895**	6,368
Interest	**2,508**	2,635
	22,062	20,894
Earnings from continuing operations before income taxes	**9,311**	1,109
Income taxes: *(note 7)*		
Current	**4,018**	552
Future	**(387)**	(1,005)
	3,631	(453)
Earnings from continuing operations	**5,680**	1,562
Loss from discontinued operations *(note 2)*	**–**	(2,891)
Net earnings (loss)	**$ 5,680**	$ (1,329)
Basic earnings per share *(note 6)*		
Earnings from continuing operations	**$ 0.050**	$ 0.014
Net Earnings (loss)	**$ 0.050**	$ (0.012)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 2001 and 2000
In thousands of dollars

	2001	2000
Retained earnings at beginning of year	**$ 2,798**	$ 4,127
Net earnings (loss)	**5,680**	(1,329)
Retained earnings at end of year	**$ 8,478**	$ 2,798

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2001 and 2000
In thousands of dollars

	2001	2000
Cash provided by (used for):		
Operations:		
Earnings from continuing operations	$ 5,680	$ 1,562
Items not involving cash:		
Depreciation and amortization	6,895	6,368
Future income taxes	(387)	(1,005)
Other	(114)	(1,135)
	12,074	5,790
Change in non-cash operating working capital *(note 8)*	20,452	(8,231)
Cash flow from continuing operations	32,526	(2,441)
Loss from discontinued operations	–	(2,891)
Cash flow from discontinued operations	846	4,654
	33,372	(678)
Financing:		
Repayment of long-term debt	(13,992)	(3,847)
Increase in long-term debt	12,526	5,381
Bank indebtedness (net change)	(20,148)	6,097
	(21,614)	7,631
Investments:		
Additions to capital assets	(9,579)	(7,733)
Proceeds on sale of capital assets	2,624	906
Investments in other companies	83	(78)
Proceeds on sale of marketable securities	–	207
	(6,872)	(6,698)
Increase in cash	4,886	255
Cash at beginning of year	18,356	18,101
Cash at end of year	$ 23,242	$ 18,356

	2001	2000
Additional disclosure of cash payments:		
1. Interest	$ 2,511	$ 2,635
2. Income taxes	1,021	362

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001 and 2000
In thousands of dollars except where otherwise noted

1. Significant accounting policies

Dynatec Corporation ("the Company") was incorporated on October 31, 1995. The Company specializes in providing mining, drilling and metallurgical technologies services.

a) *Basis of consolidation*

These consolidated financial statements include the accounts of the Company and its subsidiaries for the years ended December 31, 2001 and December 31, 2000. These consolidated financial statements are presented in accordance with accounting principles generally accepted in Canada. Joint ventures have been consolidated on a proportional basis.

b) *Measurement uncertainty*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

c) *Inventories*

Inventories include spare parts, consumable operating supplies as well as the cost of inventory held on construction sites for installation at customers' facilities.

Inventories are valued at the lower of weighted average cost and replacement cost.

d) *Prepaid expenses and other assets*

Prepaid expenses and other assets include deferred development costs in 2000. Deferred development costs are incurred where underground mine development takes place in advance of revenue generation. The costs related to this advance development are deferred and matched against contract revenue generated, as the developed areas are mined. There were no deferred development costs in 2001.

e) *Capital assets*

Capital assets are recorded at cost. Depreciation is provided primarily on the following basis:

Asset	Basis	Rate
Buildings	Straight-line	10-20 years
Mobile mining and drilling equipment	Straight-line	5-10 years
Other assets	Straight-line	5-10 years
Patents	Straight-line	10 years

Leasehold improvements are amortized over the term of the lease.

f) *Investments*

The investment in Highwood Resources Ltd. is accounted for using the equity method of accounting. Other investments are recorded at the lower of cost and net realizable value.

g) *Contract revenue*

With respect to fixed-price contracts, contract revenue is recognized using the percentage-of-completion method determined by the ratio of costs incurred to estimated total costs of each contract. If estimated total costs on any contract indicate a loss, the Company provides currently for the total anticipated loss on the contract. Revisions in the estimates required by subsequent performance and final contract settlements are included as adjustments to the results of operations in the periods such revisions and settlements occur. Billings on uncompleted contracts may be greater than or less than incurred costs with the difference recorded as a liability or asset in the accompanying consolidated financial statements.

h) *Deferred revenue*

The unrecognized revenue relates to cash payments received in advance of being earned. The deferred revenue is recognized in revenue as it is earned over the terms of the relevant contract.

i) *Foreign currency translation*

The financial statements of self-sustaining foreign subsidiaries, with the exception of those that are considered to be operating in highly inflationary environments, are translated using the current rate method whereby all assets and liabilities are translated at year-end exchange rates with income statement items translated at average exchange rates for the year. Translation adjustments arising from changes in exchange rates form part of the change in the cumulative foreign currency translation adjustment component of shareholders' equity. This adjustment is not included in income until realized through a reduction in the Company's net investment in foreign subsidiaries.

j) *Stock based compensation*

The Company has a stock option plan for directors, officers, employees and persons providing services to the company. No compensation expense for employees is recognized when the options are issued. Any consideration paid on the exercise of the options or purchase of stock is credited to share capital. If options or stocks are repurchased, any excess of consideration paid over the carrying amount of the share capital would be charged to retained earnings.

k) *Post retirement benefits*

The Company has a defined benefit pension plan for certain salaried employees (note 13). Assets in the plan are recorded at estimated fair values. The Company does not provide any post-retirement benefits other than pensions to its employees.

l) *Income taxes*

The Company accounts for income taxes in accordance with the liability method. The determination of future tax assets and liabilities is based on the differences between financial statement and income tax bases of assets and liabilities, using enacted tax rates in effect for the period in which the differences are expected to reverse. Future tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

m) *Earnings per share*

The Company has retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the calculation of earnings per share. The main difference relates to the treatment of stock options in the calculation of diluted earnings per share.

2. Discontinued Operations

In December 1999, the Company made the decision to close down its operations in Mexico, Peru, Chile and Argentina due to continued losses in operations as well as unfavorable market conditions. The businesses carried on by the Company in these countries were all related to contract drilling.

The operations were effectively shut down during 2000. Revenues for the discontinued operations were $ nil for the year ended December 31, 2001 (2000 – $3,645).

3. Capital assets

		2001	
	Cost	Accumulated Depreciation	Net book Value
Land	$ 1,021	$ –	$ 1,021
Buildings	7,949	2,512	5,437
Mobile mining and drilling equipment	77,425	43,408	34,017
Other assets	10,957	8,367	2,590
Patents	1,000	529	471
	$ 98,352	$ 54,816	$ 43,536

		2000	
	Cost	Accumulated Depreciation	Net book Value
Land	$ 981	$ –	$ 981
Buildings	7,631	2,078	5,553
Mobile mining and drilling equipment	74,835	42,841	31,994
Other assets	10,866	8,317	2,549
Patents	955	430	525
	$ 95,268	$ 53,666	$ 41,602

Included in capital assets at December 31, 2001 are assets under capital lease in the amount of $6,879 (2000 – $5,122), with $1,445 (2000 – $708) of related accumulated depreciation.

4. Bank indebtedness

	2001	2000
Bank loan at prime plus 0.5% (4.5% at December 31, 2001 and 8.0% at December 31, 2000) (i)	$ (1,099)	$ 14,045
Bank loans at U.S. prime plus 0.5% (5.5% at December 31, 2001 and 10.0% at December 31, 2000) (December 31, 2001 U.S. $ nil, December 31, 2000 U.S. $ 777) (i)	–	1,165
Bank loans at U.S. bank prime plus 0.5% (5.5% at December 31, 2001 and 10.0% at December 31, 2000) (December 31, 2001 U.S. $ nil, December 31, 2000 – $1,900) (ii)	30	2,850
Outstanding cheques	1,360	2,379
	$ 291	$ 20,439

(i) The Company maintains a $25 million operating facility with a major Canadian bank which is scheduled for renewal on May 31, 2002. This facility is secured by a first charge on current assets in Canada, a first charge on current assets in the United States and a second charge on substantially all other assets including capital assets.

(ii) These loans are secured by way of a letter of credit to a maximum of U.S $2,000 by the Company's primary bank.

5. Long-term debt

Long-term debt consists of the following:

	2001	2000
Senior term loan bearing interest at LIBOR +3.0% (December 31, 2001 – 5.125%) maturing 2005 (U.S. $4,703) (i)	$ 7,491	$ –
Senior term loan bearing interest at 7.62% to 9.59% maturing through July 31, 2001	–	10,194
First mortgages on real property bearing interest at 7.75% to 9.0% maturing on various dates to 2011 (including December 31, 2001 – U.S. $1,439; December 31, 2000 – U.S. $838)	2,292	1,256
Obligations under capital leases bearing interest at rates from 4.8% to 9.6% and maturing on various dates to 2006 (including December 31, 2001 – U.S. $1,989; December 31, 2000 – U.S. $1,801) (ii)	3,600	3,297
Various equipment loans bearing interest at rates from 5.9% to 10.0% and maturing on various dates to 2005 (including December 31, 2001 – U.S. $702, December 31, 2000 – U.S. $611)	1,119	917
	14,502	15,664
Current portion	4,685	3,707
	$ 9,817	$ 11,957

(i) The annual principal repayment obligation is $2,091 (U.S – $1,312)

The senior term loan is secured by a first charge on substantially all of the Company's United States capital assets, and a second charge on the current assets in the United States.

(ii) The following is a schedule of future minimum lease payments for capital leases with interest rates varying from 4.8% to 9.6%:

2002	$ 1,546
2003	1,111
2004	719
2005	554
2006	231
Total minimum lease payments	4,161
Less amount representing interest	561
Present value of minimum lease payments	3,600
Current portion	1,294
Long-term portion	$ 2,306

(iii) Minimum principal payments on long-term debt for the next five years and thereafter with the exception of capital leases are approximately as follows:

2002	$ 3,391
2003	2,458
2004	2,435
2005	1,521
2006	301
and thereafter	796
	$ 10,902

(iv) Interest expense on long-term debt for the year ended December 31, 2001 amounted to $1,352 (December 31, 2000 – $1,307).

6. Capital stock

a) Authorized – unlimited number of common shares
Issued and outstanding

	2001		2000	
	Shares	Amount	Shares	Amount
Beginning of year	113,593,287	$ 59,489	113,592,981	$ 59,489
Issued for cash	–	–	306	–
End of year	113,593,287	$ 59,489	113,593,287	$ 59,489

b) *Stock option plan*

The Company has a stock option plan for directors, officers, employees and persons providing services to the Company. The maximum number of shares that may be issued is limited to 10,739,529. The exercise price for the options will be established by the Board of Directors but will not be less than the prevailing market price and will be exercisable in a period not to exceed 10 years. At December 31, 2001 there were 9,780,000 (2000 – 9,280,000) options outstanding, exercisable from $0.26 per share to $0.75 per share, on various dates prior to May, 2011. During 2001 the Company issued 500,000 options exercisable at $0.26 per share prior to May 2011.

Range of exercisable prices

	Options Exercisable December 31, 2001	Weighted Average Remaining Life	Weighted Average Price	Options Exercisable December 31, 2000	Weighted Average Price
\$0.26 – \$0.50	2,030	8 years	\$ 0.37	1,530	\$ 0.41
\$0.51 – \$0.75	7,750	7 years	\$ 0.75	7,750	\$ 0.75
	9,780			9,280	

c) *Employee share purchase plan*

The Company has an employee share purchase plan whereby a total of 4,000,000 (2000 – 4,000,000) common shares may be issued under the plan. Employees can acquire shares with a value up to 5% of their annual compensation based on the market price of the shares and they may pay for the shares over a 24-month period. No shares have been issued under this plan as of December 31, 2001 (2000 – nil).

d) *Earnings per share*

Fully diluted earnings per share

The earnings per share calculations are based upon the weighted average number of shares outstanding for the year.

Fully diluted earnings per share and fully diluted earnings per share before discontinued operations figures for 2001 and 2000 have not been disclosed since the exercise of stock options and employee stock purchase options would be anti-dilutive.

7. Income taxes

The provision for (recovery of) income taxes differs from the amount that would have resulted by applying the Canadian statutory tax rate of approximately 42% (2000 – 44%) to earnings as follows:

	2001	2000
Income tax provision calculated using statutory tax rates	\$ 3,911	\$ 488
Application of unrecognized loss carry forwards and timing differences	–	(331)
Foreign earnings subject to different tax rates	(298)	(98)
Large corporations tax	90	85
Reduction in future tax liability due to rate change	(200)	(733)
Other	128	136
Income tax provision	\$ 3,631	\$ (453)

The significant component of future income taxes is a temporary difference amounting to approximately \$16,931 arising from the difference between the net book value of the fixed assets and their tax value.

8. Change in non-cash operating working capital

	2001	2000
Accounts receivable	\$ 13,624	\$ (7,751)
Marketable securities	331	(404)
Inventories	3,097	(4,239)
Prepaid expenses and other assets	1,546	2,509
Accounts payable and accrued liabilities	(605)	1,542
Income taxes payable	2,631	(256)
Deferred revenue	(172)	368
	\$ 20,452	\$ (8,231)

9. Investments and other assets

In August 1999, the Company purchased for cash 35% of the outstanding common shares of Highwood Resources Ltd. for \$6,093. The Company's share of Highwood Resources Ltd.'s loss for the year ended December 31, 2001 amounted to \$914 (2000 – loss of \$123). The original investment and accrued earnings and accrued losses are included as part of Investments on the balance sheet. On January 15, 2002 the Company increased its ownership percentage to 40.1% (See note 15).

10. Segmented information

The Company operates in the mining services, drilling services, and metallurgical technologies industries. The Company conducts its operations primarily in Canada and the United States.

(i) Information by industry segment is as follows:

	2001			
	Mining	Drilling	Metallurgical Technologies	Total
Contract revenues	$ 144,577	$ 32,854	$ 16,427	$ 193,858
Interest and other revenues	29	24	(29)	24
Depreciation and amortization	3,195	2,700	1,000	6,895
Earnings from continuing operations before income taxes	7,121	(1,316)	3,506	9,311
Identifiable assets	69,751	31,052	8,583	109,386
Capital expenditures	5,350	3,996	233	9,579

	2000			
	Mining	Drilling	Metallurgical Technologies	Total
Contract revenues	$ 114,510	$ 34,049	$ 14,082	$ 162,641
Interest and other revenues	577	307	84	968
Depreciation and amortization	2,816	2,551	1,001	6,368
Earnings from continuing operations before income taxes	(2,194)	1,266	2,037	1,109
Identifiable assets	83,733	27,632	9,335	120,700
Capital expenditures	5,669	1,910	154	7,733

(ii) Information by geographic area is as follows:

	2001		
	Canada	United States	Total
Contract revenues	$ 65,232	$ 128,626	$ 193,858
Interest and other revenues	706	(682)	24
Depreciation and amortization	1,987	4,908	6,895
Earnings from continuing operations before income taxes	5,960	3,351	9,311
Identifiable assets	55,863	53,523	109,386

	2000		
	Canada	United States	Total
Contract revenues	$ 45,335	$ 117,306	$ 162,641
Interest and other revenues	864	104	968
Depreciation and amortization	2,079	4,289	6,368
Earnings from continuing operations before income taxes	712	397	1,109
Identifiable assets	61,376	59,324	120,700

11. Commitments

The Company leases some of its premises, offices and other equipment under operating leases. The following is a schedule by year of future minimum rental payments under such leases:

2002	$ 1,084
2003	989
2004	791
2005	532
2006	301

12. Financial instruments

Financial instruments consist of recorded amounts of receivables and other like amounts which will result in future cash receipts, as well as accounts payable and any other amounts that will result in future cash outlays. The Company conducts a significant portion of its business activities in foreign currencies, primarily United States dollars. The assets, liabilities, revenues and expenses that are denominated in United States dollars will be affected by changes in the exchange rate between the Canadian dollar and the United States dollar. The Company does not use any derivative instruments to reduce its risk to foreign exchange fluctuations.

Credit risk arises from the potential that counter parties including customers will fail to perform their obligations. Rigorous credit review and the nature of the Company's customer base minimizes such risk.

Interest rate risk arises because of the fluctuation in interest rates. The risk is minimized since the interest rates on some of the Company's debt obligations are fixed until maturity. At December 31, 2001, the Company had entered into an interest rate swap transaction. As a result of this transaction, interest on $2.3 million of long-term debt was swapped from a floating to a fixed rate of 8.7%. If this position had been settled at December 31, 2001, the Company would have owed $ 71 (2000 – $ nil)

The carrying value of the financial instruments at December 31, 2001 and 2000 was approximately equal to their estimated fair value at these dates, due to the short-term nature of these instruments. Due to the use of subjective judgment and uncertainties in the determination of estimated fair market value, the aggregate fair value should not be interpreted as being realizable in an immediate settlement of the instruments.

13. Pension plan

Dynatec maintains a defined benefit pension plan for certain of its salaried employees. The plan assets at fair value were $3,322 at December 31, 2001 (2000 – $3,313). The projected benefit obligation at December 31, 2001 was $3,832 (2000 – $3,768). The unfunded liability at December 31, 2001 was $510 (2000 – $455). The prepaid pension asset of $320 (2000 – $131) is included in investments and other assets. The change in the funded status of Dynatec's pension plan during 2001 was as follows:

	2001	2000
Accrued benefit obligation at the beginning of the year	$ 3,768	$ 3,532
Current service cost	81	74
Benefits paid	(289)	(101)
Interest costs	248	238
Contributions by employees	24	25
Accrued benefit obligation at the end of the year	3,832	3,768
Plan assets at the beginning of the year	3,313	2,866
Return on plan assets	(87)	208
Employer contributions	361	315
Employee contributions	24	25
Benefits paid	(289)	(101)
Fair value of plan assets at the end of the year	3,322	3,313
Funded status (deficit) surplus	$ (510)	$ (455)

Pension expense for the period ended December 31, 2001 was $172 (2000 – $184)

The significant actuarial assumptions used to measure the Company's post-retirement benefit obligation were as follows:

	2001	2000
Discount rate	6.75%	6.75%
Expected rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

14. Contingencies

In October 2001, the Company received a statement of claim setting out a claim against Sherritt International Corporation and the Company, brought in the Supreme Court of Australia, by Fluor Australia Pty. Ltd. ("Fluor"). The claim relates to alleged deficiencies in the facilities of Anaconda Nickel's Murrin Murrin mine development in Australia. The alleged deficiencies are subject of an ongoing arbitration commenced by Anaconda Nickel against Fluor, which was retained by Anaconda Nickel to provide engineering, procurement and construction services. In the arbitration proceedings, Anaconda Nickel alleges that Fluor breached the services contract between them. The Company believes Fluor's claim is without merit and intends to defend it vigorously.

15. Subsequent events

Highwood Resources Ltd. of which the Company is a 35% shareholder issued a rights offering, dated December 20, 2001, for existing shareholders to subscribe for up to 21,855,458 rights exercisable into 18,002,847 common shares at $0.125 per share. The expiry date of the offering was January 11, 2002. The Company purchased a total of 7,438,058 common shares under the rights offering and 400,000 common shares in the open market for a total consideration of $1,039 and now owns approximately 40.1% of the total number of common shares of Highwood Resources Ltd.

In February 2002, the Company entered into a Joint Venture Agreement with Fort Knox to undertake certain development work on Sudbury Basin Properties owned by Inco. The Company will be responsible for all mine production, construction and development and will have a 25% interest in the Joint Venture. The Company will contribute $7 million to the Joint Venture up to May 11, 2003 and a further $4 million during the three year period starting May 11, 2003. Providing the joint Venture spends the $30 million required under the agreements with Inco, the Joint Venture has the right to acquire a 100% interest in the properties.

16. Reclassification of prior year figures

Certain 2000 figures have been reclassified to conform to the 2001 basis of presentation.

CORPORATE INFORMATION

DIRECTORS

Ian W. Delaney
Chairman

David F. Banks

Ronald P. Fournier

Patrick M. James

Daniel P. Owen

Peter Steen

Bruce V. Walter

W.R. (Bob) Dengler

William M. Shaver

OFFICERS

W.R. (Bob) Dengler
President and Chief Executive Officer

Bruce V. Walter
Executive Vice-Chairman

William M. Shaver
Vice-President
Mining Services Division

Noble H. Larsen
Vice-President
Drilling Services Division

Gerry L. Bolton
Vice-President
Metallurgical Technologies Division

Arnold Klassen
Vice-President Finance and
Chief Financial Officer

HEAD OFFICE

Dynatec Corporation
9555 Yonge Street, Suite 200
Richmond Hill, Ontario
Canada L4C 9M5
Tel: (905) 780-1980
Fax: (905) 780-1990

DRILLING SERVICES DIVISION

Divisional Head Office and U.S. Operations
Dynatec Drilling, Inc.
2200 South 4000 West
Salt Lake City, Utah 84120
U.S.A.
Tel: (801) 974-0645
Fax: (801) 973-2994

NANA Dynatec Drilling, LLC
1001 East Benson Boulevard
Anchorage, Alaska 99508
U.S.A.
Tel: (907) 345-2541
Fax: (907) 345-8923

MINING SERVICES DIVISION

Mining Head Office
Dynatec Corporation
9555 Yonge Street, Suite 200
Richmond Hill, Ontario
Canada L4C 9M5
Tel: (905) 780-1980
Fax: (905) 780-1990

Dynatec Mining Corporation
2200 South 4000 West
Salt Lake City, Utah 84120
U.S.A.
Tel: (801) 975-1979
Fax: (801) 975-1989

NANA Dynatec Mining, LLC
1001 East Benson Boulevard
Anchorage, Alaska 99508
U.S.A.
Tel: (907) 345-2541
Fax: (907) 345-8923

Dynatec Corporation Equipment Sales & Services
9555 Yonge Street, Suite 200
Richmond Hill, Ontario
Canada L4C 9M5
Tel: (905) 780-1987
Fax: (905) 780-1990

Mining Support Services
Western Canada
582 Chilcotin Road
Kamloops, British Columbia
Canada V2H 1G5
Tel: (250) 372-9333
Fax: (250) 374-6363

Mining Support Services
Eastern Canada
4 Cardico Drive
Gormley, Ontario
Canada L0H 1G0
Tel: (905) 888-1947
Fax: (905) 888-9068

METALLURGICAL TECHNOLOGIES DIVISION

Dynatec Corporation
8301-113th Street
Fort Saskatchewan, Alberta
Canada T8L 4K7
Tel: (780) 992-8000
Fax: (780) 992-8100

AUDITORS

Deloitte & Touche LLP

TRANSFER AGENT

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada M5C 2W9
Answer Line (416) 643-5500
or toll-free throughout North America
at 1-800-387-0825
Web-site: www.cibcmellon.ca
E-mail: inquiries@cibcmellon.ca

INVESTOR RELATIONS

Tel: (905) 780-1980
Fax: (905) 780-1990
or
W. Daniel Mothersill
Ciris International Inc.
Tel: (416) 368-8770
Fax: (416) 368-5122

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Thursday, May 16, 2002 at 10:00 a.m. in the Howland Room on the third floor of The National Club, 303 Bay Street, Toronto, Ontario, Canada.

www.dynatec.ca
www.nana.com
www.highwood-resources.com

Printed in Canada / Designed and produced by Stratagem Marketing & Design with editorial by Ciris International Inc.

Dynatec

www.dynatec.ca